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Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554

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In the Matter of )  
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Inquiry into Policies and )  
Programs to Assure Universal ) RM-8388  
Telephone Service in a Competitive )  
Market Environment )

COMMENTS OF  
AMERICAN TELEPHONE AND TELEGRAPH COMPANY

Pursuant to the Commission's directive of November 16, 1993,<sup>1</sup> American Telephone and Telegraph Company ("AT&T") submits these comments on the petition of MFS Communications Company, Inc. ("MFS") for a notice of inquiry into policies and programs related to universal service (hereafter "Petition").

MFS seeks a comprehensive review of all existing subsidy mechanisms, including explicit subsidies such as the Universal Service Fund ("USF"), as well as any subsidies that may be implicit in separations procedures and access charges. See Petition at iii. MFS further proposes (id. at 3) that this comprehensive review be completed "before actions are taken" in other, related proceedings, such as the upcoming broad rulemaking on USF issues that the

<sup>1</sup> Public Notice, 1993 FCC LEXIS 5747 (Nov. 16, 1993).

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Commission recently announced in CC Docket No. 80-286.<sup>2</sup> Except to the extent MFS proposes to delay rulemaking proceedings on subsidy-related issues, AT&T fully supports the Petition.

As to the substance of MFS' Petition, AT&T agrees with MFS on the need for a comprehensive examination and evaluation of all the mechanisms -- both explicit and implicit -- by which long-distance services subsidize local exchange service, and by which some long-distance customers subsidize other long-distance customers. Such an examination is necessitated, not only by the possibility of future local exchange competition (see, e.g., Petition at ii),<sup>3</sup> but also by basic economic efficiency. To the

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<sup>2</sup> Amendment of Part 36 of the Commission's Rules and Establishment of a Joint Board, CC Docket No. 80-286, Notice of Proposed Rulemaking, FCC No. 93-435 (September 14, 1993).

<sup>3</sup> AT&T is far less certain than MFS about the "inevitability" of "effective competition" for exchange and exchange access services. See Petition at 1 n.1. As MFS correctly observes, "local telephone service today is a nearly pure monopoly." Petition at ii; see also id. at 1 n.1 ("Today, local exchange service is almost exclusively monopolized by local exchange carriers ("LECs") serving mutually exclusive exchange territories.") Moreover, there is substantial evidence that the current technical and economic characteristics of local exchange service make it a natural monopoly, and that the limited competition that has developed so far is due solely to the pricing "umbrella" created by existing subsidy schemes. See, e.g., Comments of AT&T in DA-93-481, at 11-14; Reply Comments of AT&T in DA-93-481, at 4-5. Accordingly, AT&T has elsewhere proposed a number of concrete steps that the Commission and other regulatory bodies could take in order to determine whether meaningful exchange and exchange access competition is indeed feasible. See, e.g., Letter from

extent interexchange customers, for example, are forced by the regulatory regime to pay prices in excess of underlying economic costs, economic decisions are distorted throughout the economy.

Further, AT&T agrees with MFS that any sound examination of subsidy issues must examine each of the four questions raised in the Petition: (1) Which services or users require subsidizations? (2) How much subsidy is actually required? (3) Who should administer subsidy programs? and (4) How should subsidy funds be raised? Petition at iii-iv, 9-21. All too often, analysis of subsidy issues focuses only on the last question, and ignores other fundamental issues. AT&T urges the Commission carefully to address each of the questions suggested by MFS.

AT&T also supports MFS' preliminary answers to many of these questions. MFS is certainly correct that subsidies should generally be targeted to individual customers (or groups of customers) on the basis of financial need, and should be limited to those services (i.e., POTS with touch-tone dialing) that are necessary to provide full access to the telephone network. See Petition at 10-12. MFS is likewise correct that all subsidy programs should be administered, wherever possible, by the Commission or some

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(footnote continued from previous page)

R. Riggert to W. Caton, Acting Secretary, FCC at App. B (September 23, 1993).

other disinterested third party. See id. at 17-18. Finally, MFS is clearly correct that "the financial responsibility for subsidies [must] be spread as broadly and equitably as possible" and that "all [telecommunications] services . . . should be expected to contribute on a non-discriminatory, competitively-neutral basis." Id. at 18-19 (emphasis added). As AT&T has elsewhere shown, the current, access-line-based method for allocating USF revenue requirements among interexchange carriers is not "competitively neutral," and should be reformed promptly.<sup>4</sup>

However, MFS is simply incorrect in claiming (id. at 3) that the Commission needs to issue a notice of inquiry as a precondition to initiating rulemakings on subsidy-related issues. Both the Commission's staff and NARUC's Access Issues Working Group have developed comprehensive proposals for reforming the manner in which various subsidies -- including but not limited to the USF -- are calculated, targeted to customers, and assessed against telecommunications companies.<sup>5</sup> The Commission, therefore,

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<sup>4</sup> See Petition of AT&T for Rulemaking, CC Docket Nos. 78-72, 80-286 (filed November 24, 1993). AT&T therefore disagrees with MFS' suggestion that the USF and other subsidies could appropriately be allocated on the basis of access lines. See Petition at Att. 1, p. 4.

<sup>5</sup> These issues have been examined further in response to a USF reform proposal advanced by the United States Telephone Association ("USTA"). USTA's proposal, however, does not provide an appropriate starting point for Commission action because, among other flaws, it simply assumes that local exchange competition is already widespread. See, e.g., Comments of AT&T in Docket

already has a sound basis for proceeding with comprehensive rulemakings on all significant subsidy-related issues. And there is certainly no basis for delaying the more targeted, comprehensive rulemaking on USF issues that the Commission has already announced.

In sum, the Commission should (a) proceed with the comprehensive rulemaking on USF issues that the Commission has already announced (see supra, at 2), and (b) initiate a more comprehensive rulemaking on other subsidy-related issues.

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No. RM-8356 (filed November 2, 1993) at 3-7; Reply Comments of AT&T in Docket No. RM-8356 (filed November 16, 1993) at 2-6.

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CONCLUSION

For the reasons stated above, MFS' petition should be granted, except to the extent that it seeks to have the Commission address subsidy-related issues through a notice of inquiry rather than immediate rulemakings.

Respectfully submitted,

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December 16, 1993

CERTIFICATE OF SERVICE

I, Ann Marie Abrahamson, do hereby certify that on this 16th day of December, 1993, a copy of the foregoing "Comments of American Telephone and Telegraph Company" was mailed by U.S. first class mail, postage prepaid, to the parties listed below.

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